

Message Text

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C O N F I D E N T I A L KINSHASA 8679

DEPT PASS TREASURY AND EXIM

E.O. 11652: GDS

TAGS: EFIN ECRP CG

SUBJ: CERP 0102 - ZAIRE BALANCE OF PAYMENTS

REF: A. KINSHASA 5398, B. KINSHASA 6182 C. KINSHASA A-125 (76)

1. SUMMARY: AS POINTED OUT REFTELS, CALCULATING ZAIRIAN BALANCE OF PAYMENTS POSITION IS EXTREMELY DIFFICULT DUE TO HEAVY RELIANCE ON PRIMARY GOODS EXPORTS FOR GENERATION OF FOREIGN EXCHANGE. IN LIGHT OF PUBLISHED GOZ FIGURES ON FIRST SEMESTER EXPORTS AND SHARP DROP IN WORLD COFFEE AND COPPER PRICES, EMBASSY HAS REVISED DOWNWARD ITS ESTIMATES OF PROBABLE ZAIRIAN FX RECEIPTS IN 1977 AND HAS ATTEMPTED TO CALCULATE THE APPROXIMATE EFFECT OF THE MOST RECENT DEBT RESCHEDULING ON ZAIRIAN DEBT SERVICE REQUIREMENTS FOR 1977. ALTHOUGH RESULTANT FIGURES SHOW A BALANCE OF PAYMENTS GAP ON THE ORDER OF 200 MILLION DOLLARS, IT SHOULD BE BORNE IN MIND THAT AT PRESENT ZAIRE DOES NOT HAVE ACCESS TO FUNDS WITH WHICH TO FINANCE SUCH A GAP. ANY FOREIGN EXCHANGE SHORTFALL WILL HAVE TO BE COVERED BY EITHER A CUTBACK IN IMPORTS OR THE FURTHER
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ACCUMULATION OF ARREARAGES. AS THE LATTER WOULD RISK VOIDING ZAIRE'S ELIGIBILITY FOR HIGHER TRANCHE IMF DRAWINGS, IMPORT CUTBACKS SEEM THE MOST LIKELY ALTERNATIVE. THE LEVEL OF IMPORTS FORESEEN BY THE STABILIZATION PLAN WAS ALREADY CONSIDERED TO BE BELOW THE LEVEL NECESSARY FOR ANY REAL TERM ECONOMIC GROWTH, SO SUCH ACTION IS LIKELY TO RESULT IN EVEN FURTHER DETERIORATION OF THE STANDARD OF LIVING OF THE AVERAGE ZAIRIAN AND CONTINUED

STAGNATION OF THE CONOMY AS A WHOLE. END SUMMARY.

2. FOLLOWING TABLE PROVIDES REVISED BOP ESTIMATES FOR 1977 ON A FINANCIAL SETTLEMENTS BASIS IN MILLIONS OF DOLLARS:

CURRENT ACCOUNT RECEIPTS	1570
(OF WHICH EXPORTS)	(1370)
EXPENDITURES	1960
(OF WHICH	
(DEBT SERVICE-P&I)	(348)
(GOODS AND SERVICES)	(1512)
(OTHER INCLUDING TRANSFERES)	(100)
GROSS FINANCIAL GAP	390
FINANCED BY	
IMF	54
NEW BANK CREDITS	63
NEW PUBLIC CREDIT	75
NET GAP (DEFICIT)	198

3. EXPORT RECEIPTS - BASED ON STRONGER COPPPER EXPORTS IN JUNE, JULY, AND AUGUST, WE HAVE REVISED OUR ESTIMATE OF ANNUAL EXPORTS TO 465,900 METRIC TONS. GECAMINES EXPORTS FOR THE FIRST 8 MONTHS OF THE YEAR REACHED 291,683MT;AND COMBINED WITH SODIMIZA EXPORTS, FOR WHICH WE DO NOT HAVE A RELIABLE FIGURE BUT WHICH ARE USUALLY ABOUT 25-30,000 MT OF COPPER EQUIVALENT WE EXPECT THAT THEY WILL REACH AT LEAST 465,000 MT. EVEN AT CURRENTLY DEPRESSED COPPER PRICES, WE EXPECT THE YEARLY AVERAGE TO BE ABOUT \$0.60/LB., FOR CONFIDENTIAL

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REVENUES OF ABOUT \$616 MILLION. ALTHOUGH COFFEE EXPORTS HAVE HELD STRONG, REACHING 44,785 MT FOR THE FIRST SEMESTER OF 1977, AND DESPITE TALK OF AN UNSOLD SURPLUS ACCUMULATING IN KINSHASA THAT WOULD EASILY INSURE EXPORTS REACHING 89,000 MT FOR THE YEAR, THE DROP IN WORLD COFFEE PRICES IMPLIES A YEARLY AVERAGE PRICE OF CLOSER TO \$2.25/LB. THAN THE \$2.50 EARLIER PREDICTED. EVEN AT THIS LOWER PRICE, AND ASSUMING REPATRIATION OF EARNINGS REMAINS GOOD, THIS SHOULD PRODUCE SOME \$441 MILLION IN GROSS FOREIGN EXCHANGE EARNINGS. SIMILAR ADJUSTMENTS HAVE BEEN MADE FOR TEA AND COCOA, SINCE PRICES AND QUANTITIES SHIPPED HAVE BEEN BELOW EXPECTATIONS. OTHER AGRICULTURAL EXPORTS SUCH AS PALM OIL CONTINUE TO COMMAND GOOD PRICES AND THE QUANTITIES EXPORTED HAVE REMAINED AS EXPECTED. HOWEVER, EXPECTED EARNINGS FROM GOLD, COBALT, ZINC, AND TIN HAVE ALSO BEEN REVISED DOWNWARD DUE TO VERY WEAK FIRST SEMESTER EXPORTS IN ALL OF THESE COMMODITIES, ALTHOUGH ALL CONTINUE TO COMMAND GOOD WORLD PRICES.

4. GOODS AND SERVICES IMPORTS - BASED ON ACTUAL IMPORT PAYMENTS MADE OVER THE FIRST SEMESTER OF 1977, GOODS AND SERVICES IMPORTS SHOULD RUN SLIGHTLY OVER THE AMOUNT WE HAD PREVIOUSLY ASSUMED AS CONSISTENT WITH FOUR PERCENT GROWTH. RECENT SHORTAGES OF IMPORTED

FOOD AND OTHER PRODUCTS, AS WELL AS INDICATIONS GIVEN US BY THE GOVERNOR OF THE CENTRAL BANK THAT IMPORT PAYMENTS HAVE FALLEN OFF SHARPLY DUE TO THE LACK OF FOREIGN EXCHANGE, MAY CUT BACK THE YEAR END TOTAL TO WELL BELOW EVEN THE UNUSUALLY LOW \$1,300 MILLION FORESEEN BY THE IMF. HOWEVER INDICATIONS THAT THE GOZ HAS COMMITTED ITSELF TO PROVIDING SUFFICIENT FOODSTUFFS PRIOR TO THE GENERAL ELECTIONS MAY WELL TIP THE BALANCE BACK. (IT SHOULD BE REMEMBERED THAT NEITHER AID RECEIPTS NOR EXPENDITURES SUCH AS INVOLVED IN THE PL-480 AND

CIP PROGRAMS ARE INCLUDED IN THESE BOP CALCULATIONS. SEE REF C FOR FULL EXPLANATION OF FINANCIAL SETTLEMENTS METHODOLOGY AND RATIONALE).

5. DEBT PAYMENTS - THIS FIGURE REPRESENTS AN ATTEMPT TO ROUGHLY CONFIDENTIAL

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CALCULATE THE VALUE OF THE 77 PARIS CLUB RESCHEDULING, BASED ON ORIGINAL DEBT FALLING DUE OF \$352 MILLION (FIGURE GIVEN THE CONSULTATIVE GROUP BY THE GOZ IN MAY) AND THE ASSUMPTION THAT THE US AMOUNT OF \$69.5 MILLION EQUALLED APPROX HALF OF THE TOTAL PUBLIC DEBT AFFECTED BY THE RESCHEDULING. IN ADDITION, THE AMOUNT BY WHICH THE GOZ CAN BE EXPECTED TO REDUCE ARREARAGES HAS BEEN REVISED DOWNWARD FROM \$111 TO \$89 MILLION TO REFLECT THE FACT THAT THEY DID NOT MEET THE JUNE IMF TARGET.

6. FINANCING - WITH IMPLEMENTATION OF THE LONDON BANK AGREEMENT NOT TAKING PLACE UNTIL LATE SEPT AT THE EARLIEST, WE HAVE HAD TO AGAIN REVISE DOWNWARD THE AMOUNT OF ASSISTANCE AVAILABLE IN 77 UNDER THE AGREEMENT, UNDER WITHER A REVOLVING CREDIT, A FIVE YEAR LOAN FORMAT, OR AS BRIDGE FINANCING PRIOR TO ACTUAL IMPLEMENTATION OF EITHER PROPOSAL.

7. COMMENT: ALTHOUGH WE CONTINUE TO SHOW A "FINANCIAL GAP", IN THE ABSENCE OF AID OR UNEXPECTED BANK FINANCING OR A SHARP RISE IN EXPORT REVENUE TO FILL THE BREACH THIS WILL MEAN THAT EITHER IMPORTS WILL HAVE TO BE CUT BACK BY AN AMOUNT SUFFICIENT TO CLOSE THE GAP OR THE GOZ WILL HAVE TO ATTEMPT TO MAINTAIN THE IMPORT LEVEL BY BUILDING UP DEBT PAYMENT ARREARAGES. IN EITHER CASE THE EFFECTS ON THE ZAIRIAN ECONOMY WILL BE NONE TOO SALUTARY. DAVIS

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